



Rating Action

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**PACRA ASSIGNS AA RATING TO THE PROPOSED TFC OF
PKR 6,000mln BY ENGRO CHEMICAL PAKISTAN LIMITED**

The Pakistan Credit Rating Agency (PACRA) has assigned a rating of “AA” (double A) to the proposed issue of listed secured subordinated Term Finance Certificates of PKR 6,000mln by Engro Chemical Pakistan Limited. The rating indicates a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect ECPL’s relatively low business risk emanating from a favorable demand / supply equilibrium and stable margins. The ratings also take into account the company’s well-conceived strategy of persevering its position through growth. In line with this strategy, ECPL is undergoing major expansion in its core urea manufacturing facility that would be funded through combination of equity injection and significant procurement of debt. While this would stretch ECPL’s currently low leveraged capital structure and robust cash flows, the financial risk is expected to remain within acceptable limits. Meanwhile, the company’s diversification strategy continues to augment profitability in terms of return on investment in subsidiaries.

About issuer – the Company: Engro Chemical Pakistan Limited (ECPL) was incorporated in 1965. The core business of ECPL is manufacturing and marketing of fertilizers. ECPL is the second largest producer of urea in the country, which is produced at the plant site in Daharki. The company has also diversified its interests as strategic investments, which include (a) Engro Vopak Terminal Limited, a jetty and chemical terminal facility at Port Qasim (b) Engro Asahi Polymer and Chemicals Limited, the first PVC resin manufacturing plant in the country, (c) Engro Foods Limited, currently in the dairy business, (d) Engro Energy (Pvt.) Limited, and (e) Engro Innovative Automation (Pvt.) Limited. The Dawood Group (DG) holds a majority 42% stake in ECPL, while the holding of Engro employees and Employees Trust stands at 12%. The association of DG has augmented the capacity of the Board to guide the management in formulating its long-term strategy.

About the Issue: ECPL intends to issue a secured subordinated TFC of PKR 6,000mln in the near-term. It would be perpetual in nature, carrying profit based on 6-months KIBOR *plus* 170bps with an increment of 20bps every year after 6th year of issuance till the instrument is fully redeemed. The instrument would have call option exercisable at all installment payment dates after 5 years and put option after 10 years. This instrument would have a lower ranking status in respect of security and repayment of principal and profit to all present and future local and foreign senior secured debt having *pari passu* charge. However, the TFC would have higher ranking than all unsecured debt, sponsors loans and all equity instruments. PACRA assigns a rating of AA (Double A) to the proposed TFC, that is, the same rating as the long-term entity rating.

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